

Message Text

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ACTION NEA-12

INFO OCT-01 EUR-25 ISO-00 SPC-03 AID-20 EB-11 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03

H-03 IO-14 PA-04 PRS-01 USIA-15 CIAE-00 COME-00

FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01

DRC-01 /195 W

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R 240945Z OCT 73

FM AMEMBASSY KABUL

TO SECSTATE WASHDC 5566

INFO AMEMBASSY BONN

AMEMBASSY ISLAMABAD

AMEMBASSY LONDON

AMEMBASSY NEW DELHI

AMEMBASSY TEHRAN

C O N F I D E N T I A L KABUL 7499

E.O. 11652: GDS

TAGS: EFIN, ETRD, AF

SUBJECT: RESULTS OF IMF CONSULTATIONS WITH AFGHAN GOVERNMENT

-- STATUS OF PLANNED INTRODUCTION OF EXCHANGE CONTROLS

BY GOA

1. FRED RAY AND JOHN ROSE OF IMF WASHINGTON SPENT THREE DAYS IN KABUL LAST WEEK CONSULTING WITH GOA ON STATE OF AFGHAN FINANCIAL PROGRAM AND PLANS. CHARGE DEBRIEFED THEM SHORTLY BEFORE THEIR DEPARTURE.

2. IMF TEAM HAD MET WITH ALL KEY OFFICIALS IN MINISTRY OF FINANCE EXCEPT MINISTER (SIC) AND HAD HAD LENGTHY MEETING WITH DEPPRIMIN HASAN SHARQ. THEY APPARENTLY CONCENTRATED ON EFFORT TO DESCRIBE FOR AFGHANS HORRENDOUS EXPERIENCE OTHER COUNTRIES HAVE HAD WITH ELABORATE EXCHANGE CONTROLS. TEAM HAD RECEIVED IMPRESSION FROM VARIOUS CONTACTS HERE THAT GOA HAD NOT YET MADE UP ITS MIND ABOUT
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IMPOSITION OF CONTROLS AND WERE HOPING TO DEFLECT DECISION BEFORE

IT BECAME FINAL. SHARQ APPARENTLY LISTENED INTERESTEDLY TO RAY'S PRESENTATION OF HORROR STORIES BUT INDICATED AT CONCLUSION THAT GOVERNMENT'S MIND WAS MADE UP. HE SAID THAT THEY REALIZED "TOTAL CONTROL" MODELS OF RUSSIAN OR CHINESE TYPE WERE INAPPROPRIATE FOR AFGHANISTAN AND WERE PLANNING RATHER TO EMULATE INDIAN AND PAKISTANI MODELS AS MORE ADAPTABLE TO AFGHAN ECONOMIC SYSTEM. SAID THAT IF EXPERIENCE PROVED RAY TO BE CORRECT AND CONTROLS NOT SUCCESSFUL, GOA WOULD BE PREPARED TO TRY SOME OTHER SOLUTION.

3. RAY MADE CLEAR TO GOA OFFICIALS THAT THREE MILLION DOLLARS STILL REMAINING AS AVAILABLE DRAWING RIGHTS UNDER PRESENT IMF "STANDBY" COULD LEGALLY BE DRAWN BY AFGHANISTAN DESPITE FACT THAT AFGHANS HAVE VIOLATED CREDIT CEILINGS AND HAVE IMPOSED SOME DE FACTO NEW CONTROLS OVER EXCHANGE TRANSACTIONS. HE EXPLAINED THAT BECAUSE OF AFGHANISTAN'S STANDING WITH FUND, THIS STANDBY WAS NOT OF "BINDING NATURE." WHEN QUERIED ABOUT WHAT FUND'S ATTITUDE MIGHT BE TOWARD FUTURE STANDBY REQUEST IF GOA IMPOSES ELABORATE EXCHANGE CONTROLS DURING COMING MONTHS, RAY RESPONDED ONLY THAT FUND'S DECISION WOULD DEPEND ON "A CAREFUL EVALUATION OF THE CIRCUMSTANCES AT THE TIME." HE SAID THAT FUND ALWAYS STARTED FROM "SITUATION AS IT IS IN LOOKING AT A NEW STANDBY REQUEST." STRONG IMPLICATION WAS THAT EVEN IF REVERSION TO ELABORATE CONTROLS OCCURS, STANDBY WOULD STILL BE NEGOTIABLE.

4. SHARQ TOLD RAY THAT GOA WISHED TO CONTINUE HAVING IMF ADVICE AND ASSISTANCE AND VERY MUCH VALUED ITS HELP, EVEN THOUGH IT MIGHT NOT TAKE ITS ADVICE IN THIS PARTICULAR INSTANCE. IMF TEAM DEPARTED IN RELAXED FRAME OF MIND, THOUGH PESSIMISTIC ABOUT POSSIBILITY OF AFGHANISTAN AVERTING GREAT ECONOMIC PROBLEMS IF ELABORATE CONTROL SYSTEM ESTABLISHED WITH ALL ATTENDANT TEMPTATIONS FOR CORRUPTION AND MALADMINISTRATION AS WELL AS ECONOMIC DISTORTIONS.

5. WHEN CHARGE SUBSEQUENTLY SAW MINISTER OF FINANCE OCTOBER 21, MINFIN INSISTED THAT GOVERNMENT HAD NOT RPT NOT YET TAKEN DECISION ON COMPREHENSIVE CONTROL MECHANISM, ALTHOUGH HE POINTED TO PRESIDENT DAOUD'S "JESHYN SPEECH" WHICH MADE IT CLEAR GOA PLANNED STRONG FOREIGN EXCHANGE CONTROLS. HE SAID THAT GOA, WITH ADVICE OF IMF, WAS APPROACHING THE SITUATION GRADUALLY AND WOULD MAKE CHANGES IN SUCH A WAY AS TO MINIMIZE DISRUPTION AND NOT ABROGATE "CONTRACT" (STANDBY AGREEMENT) WITH IMF. CONTROL MEASURES

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WERE BEING INTRODUCED ON PIECEMEAL, TRIAL BASIS; IF CERTAIN ONES DID NOT WORK, THEY WOULD BE MODIFIED UNTIL EFFECTIVE SYSTEM OBTAINED. AS AN EXAMPLE, GOA CURRENTLY TRYING FORCE TRADERS TO USE REGULAR BANKING CHANNELS FOR LETTERS OF CREDIT RATHER THAN TRADITIONAL MONEY BAZAAR. WHEN ASKED WHETHER SYSTEM WOULD BE MODELED ON PAKISTAN OR INDIA EXCHANGE CONTROL SYSTEMS, MINISTER SAID IT WOULD NOT SINCE ECONOMIES TOO DISSIMILAR. BOTH INDIA AND PAKISTAN HAD SUBSTANTIAL DOMESTIC INDUSTRY WHEREAS AFGHANISTAN HAD

TO IMPORT MOST OF ITS GOODS. ALSO INDIAN SYSTEM ADMINISTRATIVELY
VERY COMPLEX. HOWEVER, HE SAID, THERE MIGHT BE SOME SIMILARITIES.
LEWIS

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